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ABSTRACT

In an address to the House Ways and Means Committee on the Revenue Provision in the Year 2000 Budget, Gery Chico, President of the Chicago School Reform Board of Trustees, discusses four basic characteristics of a good school modernization funding plan and offers observations and recommendations on the two funding proposals currently before the Committee. Attached are photographs renovation work resulting from the Chicago Public Schools Improvement Projects. (GR)

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Statement of Gery Chico, President, Chicago School Reform Board of Trustees.
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Gery Chico

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EF 005 334

Statement of Gery Chico, President
Chicago School Reform Board of Trustees

Testimony Before the House Committee on Ways and Means

Hearing on Revenue Provision in President's Fiscal Year 2000 Budget

March 10, 1999

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to address you on the issue of how the federal government can play a role in rebuilding America's schools.

I want to begin by thanking Speaker Denny Hastert who recently visited our schools. We shared with him our progress in improving performance and reforming a system once considered one of the worst in the nation. Today, we've been called a national model of reform.

I also want to thank Congressman Charles Rangel -- who created the Qualified Zone Academy Bonds.

Chicago was the first school district in the nation to use the bonds. We're using the money to build the city's first JROTC academy - at the site of the former home of the leading African-American military regiment on Chicago's south side.

Thank you Congressman Rangel and the entire committee.

I also want to thank Congressman Rod Blagojevich for making school construction an important issue. Although he's not on the committee, he's been a strong voice for us.

Finally, I want to thank President Clinton and Vice-President Gore for giving attention to this vitally important issue.

Two years ago, the president came to Chicago and met Mayor Daley and me and several others and we outlined the scope of the infrastructure needs in our schools and the local commitment we have made.

Since 1995, Chicago has committed close to $2 billion in primarily local funding for 575 separate projects at 371 schools. That money has built 8 new schools and 48 additions or annexes, adding 632 new classrooms to the district, which serves 430,000 school children.

But more needs to be done, and Chicago cannot do it all alone. We're doing our part, but we need partners at the federal level to meet all the needs.

We've conservatively identified another $1.5 billion in additional improvements needed before we can say that our schools are truly the kinds of learning environments that we know will make a difference.

The fact is, improving the learning environment improves performance. When kids are in crumbling school buildings with outdated equipment, they're getting the message that education isn't important.

When they're in overcrowded classrooms or taking class in hallways or basements because the classrooms are full -- they figure school isn't important.

EF 005 334

We can't afford to send that message to our children. We're entering a new century. Every forward-thinking industry knows they can pack up and move anywhere on earth and conduct their business.

If we want them to stay here and invest in America, we have to give them a workforce that can deliver - in Chicago and in schools throughout the nation.

The fact is, every school district needs help. Last year, during the Rebuild America's Schools Campaign, we generated 83,000 letters of support from districts all across Illinois, and they all said they needed federal help to rebuild their schools.

In thinking about the plans under consideration, I want to emphasize four basic characteristics of a good school modernization funding plan: simple, flexible, substantial and immediate.

If it's not simple it creates a lot of paperwork, which eats up time and money and doesn't build or modernize schools.

If it's not flexible, it won't help everyone do what they want to do; it will dictate rather than support - and that's not appropriate.

If it's not substantial, it's irrelevant. There's an estimated $200 billion in needs nationwide. We need a real commitment - not a token gesture.

And if it's not immediate, it's also irrelevant. The challenge is to do the right thing today - not years from now. Every year our children move another grade. Every year we delay deprives our children of the education they deserve -- and need.

Before the committee are two proposals and I want to briefly offer our observations and recommendations. Obviously, we will work with you under any circumstances because the need is so great.

One plan has an arbitrage component that essentially allows school districts to borrow money as they currently do, but invest that money for up to four years -- instead of just two -- and then use the extra interest earned toward school improvements.

Our concerns are that this ultimately does not provide enough money to make an impact - nor does it provide any money right away. In Chicago, only one of the four bond issues we have done since 1996 had positive arbitrage and the earnings were negligible - one-tenth of one percent per annum.

It also doesn't work for Chicago because we spend our money as soon as we get it - and most other districts are in the same position. So this arbitrage plan is neither substantial nor immediate.

The other plan, advanced by the President, expands on the QZAB program and creates new school modernization bonds, both of which rely on tax credits. It will offer up to $25 billion in bonding authority to school districts around the country.

From Chicago's standpoint, this is a good plan because it's interest-free subsidy really adds up.

We estimate that the President's school modernization bond program will allow Chicago to issue $676 million in bonds and save us up to $333 million in interest payments. Now that's an incentive *and* a form of assistance that can really make a difference.

And the federal help would be even more effective if Congress extended the payback period beyond the

proposed 15 years to 20, 25, or even 30. Why? Because the principal-only payment for 15 years is the same as, or very close to, the payments of principal *and* interest over 30 years. As it is currently written, the 15-year payback has almost the same financial burden as if a school district borrowed the money over 30 years with interest.

We also believe that the Department of Education's role should be limited to receiving descriptions of capital plans and annual reports. They should not sign off on individual capital plans.

Unlike the school modernization bonds, the use of QZABs will require substantial business contributions to schools. Unless Congress adjusts the proposal to provide businesses with a substantial incentive to make this investment, many local school districts will be unable to access the program. In fact, under this year's QZAB program, which requires a 10 percent private contribution to the capital cost of projects, we are partnering with five other schools districts in Illinois - Mendota, DeKalb, Aurora, Elgin and East St. Louis - who probably could not have structured a QZAB on their own because of required private contribution. The circumstances probably will be the same under the new business contribution requirement.

There is also a proposal in the Senate which would enable private investors to use private activity bonds to fund school construction. This proposal seeks to spur private investment in school construction by offering investors significant depreciation incentives along with favorable tax exempt financing. This concept works only if the buildings remain free from real property taxes.

To keep the buildings free from real property taxes, Congress should allow the school district to maintain exclusive title to its property but the tax law should impute a tax basis to the private investor. This would enable the private investor to depreciate the property but avoid a title transfer and real property taxation that would undercut the depreciation tax benefit and the usefulness of the private activity bond.

In the space of five minutes, I don't want to revisit the philosophical debate over whether the federal government has any role at all with respect to education. I will just repeat what I said six weeks ago here in Washington when I testified before the House Committee on Education and the Workforce.

America felt it was a national priority to build the interstate highway system in the 1950's, but we've never made the rebuilding of our schools a national priority. But at the dawn of the new millennium, our schools are not merely a national priority -- they're a matter of national security and we need to enhance and strengthen them.

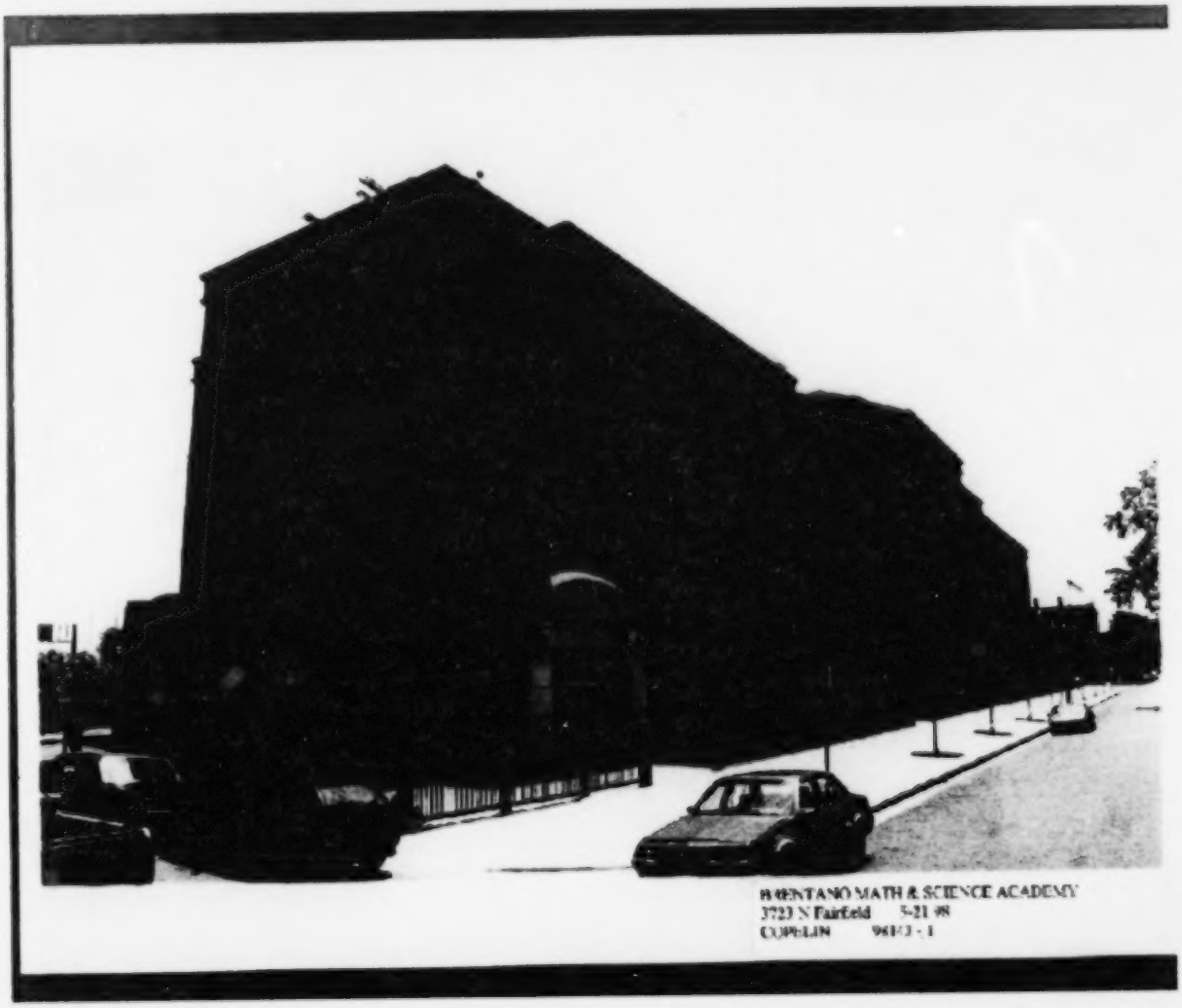
Thank you Mr. Chairman and members of the Committee for your time and consideration.

[SOME OF THE ATTACHMENTS INCLUDED IN THE "CHICAGO PUBLIC SCHOOLS, CAPITAL IMPROVEMENT PROJECTS OVERVIEW" ARE BEING RETAINED IN THE COMMITTEE FILES.]

Carson School - Region 5, 5516 South Maplewood Ave. (Addition)

Carson-7

Brentano Acdemy - Region 2, 2723 North Fairfield Avenue (Exterior Renovation), Before and After



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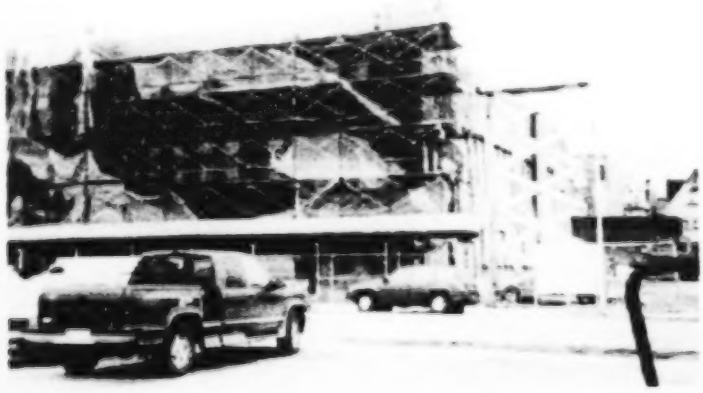
Lakeview High School - Region 1, 4015 North Ashland (Health Clinic)

Bronzeville Academy - Region 4, 3519 S. Giles (QZAB - Qualified Zone Academy Bonds)



Exterior masonry repair in progress at south and west elevations from the Phase IV parking area.

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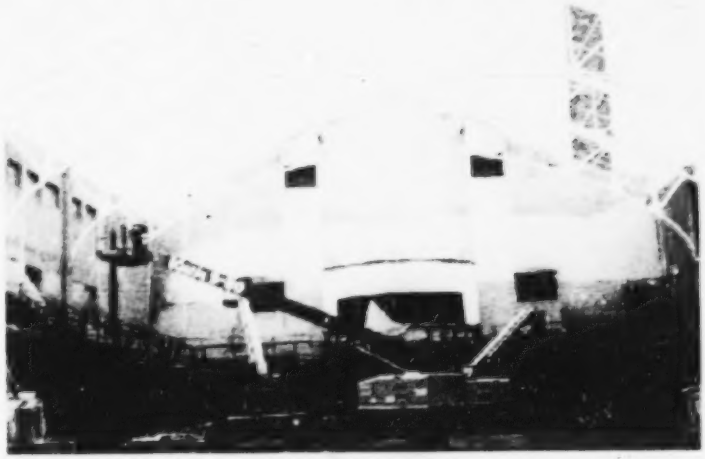
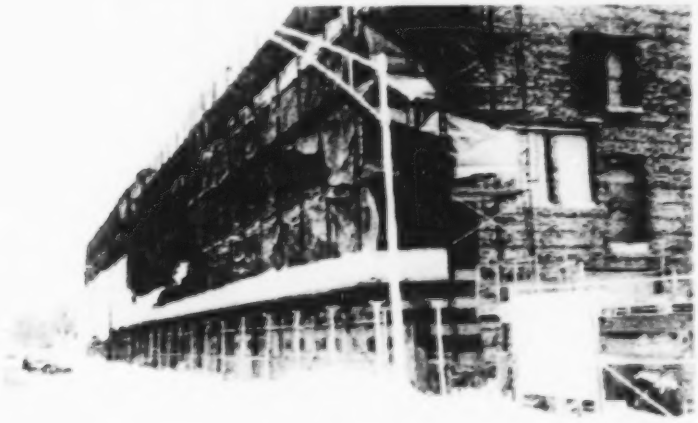


Drill Hall north interior elevation at Observation Room. Roof steel priming in progress.



South exterior elevation scaffolding for masonry repair.

North and west exterior elevations at Giles alley entrance.